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Office of Public Instruction

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1996

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Office of Public Instruction

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1996



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MONTANA LEGISLATIVE BRANCH

Legislative Auditor

Scott A. Seacat

Legal Counsel:

John Northey



Deputy Legislative Auditors:

Mary Bryson

Operations and EDP Audit

James Gillett

Financial-Compliance Audit

Jim Pellegrini

Performance Audit

LEGISLATIVE AUDIT DIVISION

December 1996

To the Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Office of Public Instruction for the two fiscal years ended June 30, 1996. The office's written response to the audit is included in this report.

The audit was conducted by Anderson, ZurMuehlen and Co., P.C. under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

Sincerely,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", is written over a horizontal line.

Scott A. Seacat
Legislative Auditor

96C-01

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Elected and Administrative Officials

Elected Officials

Nancy Keenan	Superintendent of Public Instruction and Executive Officer for K-12 Vocational Education
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Administrative Officials

Jack Copps	Deputy Superintendent of Public Instruction
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Scott Buswell	Administrator, Information Technology and Support Services
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Gail Gray	Assistant Superintendent for Curriculum Services
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Geralyn Driscoll	Legal Counsel
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Kathleen Holden	Legal Counsel
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Kathy Fabiano	Administrator, Operations Department
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Summary of Recommendations

The listing below summarizes the recommendations contained in the report and OPI's response thereto.

Federal Compliance

Federal Reporting, Form FNS-10—We recommend control procedures be reviewed to ensure the FNS-10 report accurately reflects the data on the support documentation.

Agency Response—Concur.

Carl Perkins Indirect Costs—We recommend OPI establish review procedures for indirect cost rates used by Carl Perkins subrecipients to ensure budgeted and actual rates do not exceed the rates approved by OPI.

Agency Response—Concur.

Carl Perkins Administrative Costs—We recommend the amount budgeted and reimbursed to subrecipients for administrative costs be reviewed to ensure they are within the 5% allowed.

Agency Response—Concur.

School Food—We recommend the information packet sent to subrecipients be reviewed, and instructions clarified, for non-traditional settings such as the Swan River Correctional Training Camp.

Agency Response—Concur.

Employee Time Reporting—We recommend OPI comply with federal regulations by distributing time based on actual time records.

Agency Response—Concur.

Summary of Recommendations

State Compliance

Custodian Cash Accounts—We recommend OPI accounting personnel maintain all custodian cash accounts under a centralized control system.

Agency Response—Concur.

Commodities—We recommend renewal forms and approvals be reviewed prior to shipping commodities to subrecipients.

Agency Response—Concur.

Local Adult Education Levies—We recommend OPI develop a set of rules and standards for approval/disapproval of locally adopted adult education levies.

Agency Response—Do not concur.

Electronic Data Processing (EDP)

MAEFAIRS—We recommend OPI contract for an EDP audit of MAEFAIRS.

Agency Response—No objection.

Introduction

We performed a financial-compliance audit of the Office of Public Instruction (OPI) for the two fiscal years ended June 30, 1996. The objectives of the audit were to:

1. Determine if OPI complied with applicable state and federal laws and regulations which could have a significant effect on the financial schedules.
2. Determine if OPI's financial schedules fairly present the results of operations for the audit period.
3. Recommend improvements in the management and internal controls of OPI.
4. Determine the implementation status of prior audit recommendations.

This report contains 9 recommendations to OPI. Other areas of concern deemed not to have a significant effect on the successful operations of OPI programs are not specifically included in the report, but have been discussed with management.

Background

OPI was established by Section I, Article VI of the Constitution of Montana. The Superintendent of Public Instruction is elected to serve a four-year term and is responsible for the general supervision of the public schools and school districts of the state. The superintendent is also the ex-officio secretary of the State Board of Education and the governing agent and executive officer for K-12 vocational education in the state.

OPI personnel indicated they provide services to approximately 165,547 school age children and 10,079 teachers in 466 operating school districts. OPI provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff administers a number of federally funded programs and provides a variety of information services.

OPI's additions to fund balances were \$611.9 million and \$533.5 million for fiscal years 1994-95 and 1995-96, respectively. The reductions to fund balances for OPI were \$625 million and \$527 million for fiscal years 1994-95 and 1995-96, respectively. Total federal assistance for OPI was \$89.4 million (including \$2.4 million of commodities) and \$65.2 million (including \$2.1 million of commodities) for fiscal years 1994-95 and 1995-96, respectively.

Introduction

Budgeted expenditures in the General, Special Revenue and Internal Service Funds are detailed by program in the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budget and Actual on pages A-7 and A-8 of this report. OPI's legislative appropriations are allocated by program. OPI has two programs that are discussed below.

OPI Administration - This program includes activities related to data processing, word processing, purchasing, legal, payroll, personnel, mail, and analytical and accounting support to operations within the office. It also includes responding to requests for information and data from school districts, the federal government, elected officials, and the general public. This program also accounts for activities involving all federal grants received by the office including costs of administering Elementary and Secondary Education Act Chapter I, Special Education, Vocational Education (K-12), and Title IV (Civil Rights) grants. This program includes teacher certification, accreditation, adult basic education, the film library, drivers' education, school food services, and audiology activities. Reference library functions and school publications are accounted for in this program.

Distribution to Public Schools - The expenditures in this program relate to state and county equalization distributions, state traffic education distributions, distributions of federal funds and grants that allow OPI distribution discretion. Also, this program accounts for activity related to distributions of federal funds passed through to counties and school districts. The Schedule of Agency Fund Activity on page A-9 summarizes the pass-through expenditures for fiscal year 1994-95. During fiscal year 1995-96, the pass-through expenditures are accounted for in the special revenue funds.

Prior Audit Recommendations

Financial Compliance Audit Recommendations

The previous financial-compliance audit of OPI for the two fiscal years ended June 30, 1994, contained five recommendations. OPI implemented all five recommendations. The recommendations are summarized as follows:

1. Ensure the Carl Perkins subsidiary is reconciled to SBAS on a monthly basis.
2. Comply with federal regulations concerning the filing date of federal financial reports.
3. Ensure Form 269 filed with the United States Department of Agriculture agrees with SBAS
4. Review the internal control system for federal reporting.
5. Comply with the Single Audit Act requirement to obtain and review audited financial statements for all subrecipients that are required to have audits.

Electronic Data Processing (EDP)

In June of 1992 an EDP audit report was issued for the OPI Foundation Program Application. The report contained fifteen recommendations. As of June 30, 1994 eleven of the fifteen recommendations had been implemented.

The remaining four recommendations from the June 30, 1992 audit report were implemented as of June 30, 1996. They are as follows:

1. Establish written policies and procedures which adequately document the implementation and maintenance of general controls.
2. Document Foundation Program application objectives; manual input, processing, and output procedures; error correction procedures; and processing information.
3. Include batch and electronic control totals in future updates to the Foundation Program application.
4. Ensure the decentralization process of data entry includes adequate application documentation, user documentation, user training, and improved processing controls.

Findings and Recommendations

Federal Compliance

Federal Reporting, Form FNS-10— The February 1995 federal report form FNS-10 Report for School Food Service did not agree to supporting documentation.

We recommend control procedures be reviewed to ensure the FNS-10 report accurately reflects the data on the support documentation.

Federal Reporting, Form FNS-155— The October 1995 federal report form FNS-155 Report for Receipt and Distribution of Donated Commodities ending inventory balance did not agree to support documentation.

The FNS-155 report is no longer required, therefore we have no recommendation.

Carl Perkins Indirect Costs— Indirect cost rates used by Carl Perkins subrecipients exceeded rates approved by OPI.

We recommend OPI establish review procedures for indirect cost rates used by Carl Perkins subrecipients to ensure budgeted and actual rates do not exceed the rates approved by OPI.

Carl Perkins Administrative Costs— Administrative costs for Carl Perkins subrecipients were approved and reimbursed in excess of the 5% allowed.

We recommend amounts budgeted and reimbursed to subrecipients for administrative costs be reviewed to ensure they are within the 5% allowed.

School Food— An incorrect number of meals was claimed by and reimbursed to Swan River Correctional Training Camp under the School Food Program.

We recommend the information packet sent to subrecipients be reviewed, and instructions clarified, for non-traditional settings such as the Swan River Correctional Training Camp.

Findings and Recommendations

Employee Time Reporting— Budgeted time recorded to the general ledger did not reflect actual time spent by employees in various programs.

We recommend OPI comply with federal regulations by distributing time based on actual time records.

State Compliance

Custodian Cash Accounts—OPI maintains several custodian cash accounts. During our testing, we noted the cash accounts are maintained by OPI personnel who work with the activities utilizing the cash accounts. For example, the custodial cash account for the Montana Association of Future Homemakers of America is maintained by OPI personnel whose duties relate to this program. The current system of controls for the custodian cash accounts is decentralized due to the current practice of each custodian cash account being maintained by a different individual.

The Montana Operations Manual (2-1900.3) indicates the ultimate responsibility for each nontreasury cash account lies with the individual who is responsible for the business office of the agency. In addition, a centralized control system reduces the risk of loss as compared to a decentralized control system.

We recommend OPI accounting personnel maintain all custodian cash accounts under a centralized control system.

Commodities— Items were shipped to subrecipients prior to the signing and approval of the National School Lunch and Child Nutrition Programs Agreement renewal.

We recommend renewal forms and approvals be reviewed prior to shipping commodities to subrecipients.

Findings and Recommendations

Local Adult Education Levies—MCA 20-7-705(3) requires OPI to promulgate rules and forms to review and approve locally adopted levies for adult education. A form currently exists and is approved, however, there are no rules relative to the form nor are there standards for approval/disapproval.

We recommend OPI develop a set of rules and standards for approval/disapproval of locally adopted adult education levies.

Electronic Data Processing (EDP)

Finding—An EDP audit of OPI was conducted by the Office of Legislative Auditors (OLA) at June 30, 1992. Since that time, OPI has implemented the Montana Automated Education Finance and Information Reporting System (MAEFAIRS). MAEFAIRS is used in processing budget information received from schools and school equalization payments. The system is complex and is used extensively by OPI.

We recommend OPI consider an EDP audit of the MAEFAIRS system.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS), without adjustments for errors noted during the audit. We issued an unqualified opinion on OPI's financial schedules for the two fiscal years 1994-95 and 1995-96. An unqualified opinion indicates the schedules are fairly stated in all material respects.

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Office of Public Instruction (OPI), State of Montana, for the fiscal years ended June 30, 1995 and 1996, as shown on pages A-5 through A-13. The information contained in these schedules is the responsibility of OPI's management. Our responsibility is to express an opinion on these financial schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, OPI's financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The financial schedules are not intended to be a complete presentation and disclosure of OPI's assets and liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of Public Instruction for the two fiscal years ended June 30, 1995 and 1996, in conformity with the basis of accounting described in Note 1.

As discussed in Note 11 to the financial schedules, OPI changed its method of accounting and financial reporting for certain grants and other financial assistance in fiscal year 1995-96.

As discussed in Note 8 to the financial schedules, OPI's state equalization aid account was closed in fiscal year 1995-96. The activities previously accounted for in this account are now accounted for in the general fund.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 1996 on our consideration of OPI's internal control structure and a report dated September 27, 1996 on its compliance with laws and regulations.

Anderson Zur Muehlen & Co., P.C.

Helena, Montana
September 27, 1996

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES
For the Two Fiscal Years Ended June 30, 1996

	General Fund	Special Revenue Fund	Internal Service Fund
FUND BALANCE, JULY 1, 1994	\$ -	\$ 6,710,421	\$ 1,924
ADDITIONS:			
<u>Fiscal Year 1994-1995</u>			
Budgeted Revenue & Transfers In	9,603	352,389,113	1,013,287
Nonbudgeted Revenue & Transfers In	610	127,487	
Support From State of Montana	149,281,639	-	-
Prior Year Expenditure Adjustments	-	20,581	29,029
Cash Transfers In	-	56,244,524	-
Prior Year Expenditures	-	87,604	-
Nonbudgeted Prior Year Expenditure Adjustments	-	-	28,531
<u>Fiscal Year 1995-1996</u>			
Budgeted Revenue & Transfers In	33,041	63,886,935	1,060,481
Nonbudgeted Revenue & Transfers In	526	351,098	-
Prior Year Expenditure Adjustments	91,618	20,420	197
Support from State of Montana	459,238,410	-	-
Prior Year Revenue	-	241,680	-
Cash Transfers In	-	1,171,267	-
Residual Equity Transfer	-	6,410,150	-
Nonbudgeted Expenditures and Transfers Out	-	-	13,620
Total Additions	608,655,447	480,950,859	2,145,145
REDUCTIONS:			
<u>Fiscal Year 1994-1995</u>			
Budgeted Expenditures & Transfers Out	149,208,945	420,413,745	1,017,254
Prior Year Expenditure Adjustments	57,291	10,380	-
Prior Year Transfer Adjustments	25,616	32	-
Prior Year Revenue	-	48,495	-
Prior Year Revenue Adjustments	-	1,320,238	-
Cash Transfers Out	-	161,448	-
Nonbudgeted Expenditures & Transfers Out	-	-	14,904
<u>Fiscal Year 1995-1996</u>			
Budgeted Expenditures & Transfers Out	459,355,175	65,405,361	1,028,448
Prior Year Transfer Adjustments	8,420	-	-
Nonbudgeted Expenditures & Transfers Out	-	34,249	-
Prior Year Expenditure Adjustments	-	29,124	-
Prior Year Revenue Adjustments	-	40,132	-
Prior Year Revenue	-	33,274	-
Cash Transfers Out	-	164,550	-
Total Reductions	608,655,447	487,661,028	2,060,606
FUND BALANCE, JUNE 30, 1996	\$ -	\$ 252	\$ 86,463

The Notes to Financial Schedules are an integral part of this schedule.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN - ESTIMATE AND ACTUAL
For the Two Fiscal Years Ended June 30, 1996

	Licenses and Permits	Sale of Documents, Merchandise & Property	Taxes	Charges for Services	Investment Earnings	Miscellaneous	Grants, Contracts, Documents & Abandonments	Other Financing Sources	Federal	Total
<u>Fiscal year 1994-1995</u>										
GENERAL FUND										
Estimated Revenue		\$ 35,000								\$ 35,000
Actual Revenue		<u>9,603</u>								<u>9,603</u>
Collections Over (Under) Estimate		<u>\$ (25,397)</u>								<u>\$ (25,397)</u>
SPECIAL REVENUE FUNDS										
Estimated Revenue	\$ 206,000		\$ 140,020,001	\$ 61,400	\$ 80,000	\$ 500	\$ 52,130	\$ 137,636,168	\$ 29,841,002	\$ 307,897,201
Actual Revenue	<u>218,239</u>		<u>205,842,670</u>	<u>60,561</u>	<u>-</u>	<u>210</u>	<u>65,013</u>	<u>114,213,349</u>	<u>31,989,071</u>	<u>352,389,113</u>
Collections Over (Under) Estimate	<u>\$ 12,239</u>		<u>\$ 65,822,669</u>	<u>\$ (839)</u>	<u>\$ (80,000)</u>	<u>\$ (290)</u>	<u>\$ 12,883</u>	<u>\$ (23,422,819)</u>	<u>\$ 2,148,069</u>	<u>\$ 44,491,912</u>
INTERNAL SERVICE FUND										
Estimated Revenue								\$ 400,016	\$ 600,000	\$ 1,000,016
Actual Revenue								<u>393,097</u>	<u>620,190</u>	<u>1,013,287</u>
Collections Over (Under) Estimate								<u>\$ (6,919)</u>	<u>\$ 20,190</u>	<u>\$ 13,271</u>
<u>Fiscal year 1995-1996</u>										
GENERAL FUND										
Estimated Revenue		\$ 15,100								\$ 15,100
Actual Revenue		<u>33,041</u>								<u>33,041</u>
Collections Over (Under) Estimate		<u>\$ 17,941</u>								<u>\$ 17,941</u>
SPECIAL REVENUE FUNDS										
Estimated Revenue	\$ 206,000		\$ 4	\$ 67,500	\$ 2	\$ 500	\$ 43,162	\$ 5,147,336	\$ 167,984,539	\$ 173,449,043
Actual Revenue	<u>164,388</u>		<u>12,191</u>	<u>62,339</u>	<u>-</u>	<u>285</u>	<u>164,622</u>	<u>3,055,996</u>	<u>60,427,114</u>	<u>63,886,935</u>
Collections Over (Under) Estimate	<u>\$ (41,612)</u>		<u>\$ 12,187</u>	<u>\$ (5,161)</u>	<u>\$ (2)</u>	<u>\$ (215)</u>	<u>\$ 121,460</u>	<u>\$ (2,091,340)</u>	<u>\$ (107,557,425)</u>	<u>\$ (109,562,108)</u>
INTERNAL SERVICE FUND										
Estimated Revenue								\$ 909,959	\$ 600,000	\$ 1,509,959
Actual Revenue								<u>350,000</u>	<u>710,481</u>	<u>1,060,481</u>
Collections Over (Under) Estimate								<u>\$ (559,959)</u>	<u>\$ 110,481</u>	<u>\$ (449,478)</u>

The Notes to Financial Schedules are an integral part of this schedule

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 1996

	OPI Administration	Distribution To Public Schools	Total
PERSONAL SERVICE			
Salaries	\$ 3,886,136	\$ -	\$ 3,886,136
Employee Benefits	1,016,639	-	1,016,639
Total	<u>4,902,775</u>	<u>-</u>	<u>4,902,775</u>
OPERATING EXPENSES			
Other Services	1,237,445	-	1,237,445
Supplies & Materials	260,177	-	260,177
Communications	336,804	-	336,804
Travel	558,494	-	558,494
Rent	215,256	-	215,256
Utilities	12,262	-	12,262
Repair & Maintenance	76,368	-	76,368
Other Expenses	1,419,656	-	1,419,656
Total	<u>4,116,462</u>	<u>-</u>	<u>4,116,462</u>
EQUIPMENT			
Equipment	123,957	-	123,957
Total	<u>123,957</u>	<u>-</u>	<u>123,957</u>
LOCAL ASSISTANCE			
From State Sources	12,739	454,502,427	454,515,166
Total	<u>12,739</u>	<u>454,502,427</u>	<u>454,515,166</u>
GRANTS			
From State Sources	-	1,997,432	1,997,432
From Federal Sources	3,500	59,518,281	59,521,781
Total	<u>3,500</u>	<u>61,515,713</u>	<u>61,519,213</u>
TRANSFERS			
Accounting Entity Transfers	350,000	261,411	611,411
Total	<u>350,000</u>	<u>261,411</u>	<u>611,411</u>
TOTAL PROGRAM EXPENDITURES	<u>\$ 9,509,433</u>	<u>\$ 516,279,551</u>	<u>\$ 525,788,984</u>
GENERAL FUND			
Budgeted	\$ 4,649,416	\$ 464,797,832	\$ 469,447,248
Actual	3,609,559	455,745,616	459,355,175
Unspent Budget Authority	<u>\$ 1,039,857</u>	<u>\$ 9,052,216</u>	<u>\$ 10,092,073</u>
SPECIAL REVENUE FUNDS			
Budgeted	\$ 6,189,572	\$ 123,377,920	\$ 129,567,492
Actual	4,871,426	60,533,935	65,405,361
Unspent Budget Authority	<u>\$ 1,318,146</u>	<u>\$ 62,843,985</u>	<u>\$ 64,162,131</u>
INTERNAL SERVICE FUND			
Budgeted	\$ 1,057,286	\$ -	\$ 1,057,286
Actual	1,028,448	-	1,028,448
Unspent Budget Authority	<u>\$ 28,838</u>	<u>\$ -</u>	<u>\$ 28,838</u>

The Notes to Financial Schedules are an integral part of this schedule.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 1995

	OPI Administration	Distribution To Public Schools	Total
PERSONAL SERVICE			
Salaries	\$ 4,012,802	\$ -	\$ 4,012,802
Employee Benefits	1,062,702	-	1,062,702
Total	<u>5,075,504</u>	<u>-</u>	<u>5,075,504</u>
OPERATING EXPENSES			
Other Services	1,374,298	10,349	1,384,647
Supplies & Materials	284,559	4,779	289,338
Communications	365,201	117	365,318
Travel	589,182	11,165	600,347
Rent	194,603	2,035	196,638
Utilities	11,107	-	11,107
Repair & Maintenance	89,677	-	89,677
Other Expenses	978,219	3,455	981,674
Total	<u>3,886,846</u>	<u>31,900</u>	<u>3,918,746</u>
EQUIPMENT			
Equipment	188,272	-	188,272
Total	<u>188,272</u>	<u>-</u>	<u>188,272</u>
LOCAL ASSISTANCE			
From State Sources	10,057	452,148,874	452,158,931
Total	<u>10,057</u>	<u>452,148,874</u>	<u>452,158,931</u>
GRANTS			
From State Sources	-	1,115,863	1,115,863
From Federal Sources	47,098	5,211,503	5,258,601
Total	<u>47,098</u>	<u>6,327,366</u>	<u>6,374,464</u>
TRANSFERS			
Accounting Entity Transfers	393,097	102,530,930	102,924,027
Total	<u>393,097</u>	<u>102,530,930</u>	<u>102,924,027</u>
TOTAL PROGRAM EXPENDITURES	<u>\$ 9,600,874</u>	<u>\$ 561,039,070</u>	<u>\$ 570,639,944</u>
GENERAL FUND			
Budgeted	\$ 3,775,110	\$ 169,092,507	\$ 172,867,617
Actual	3,725,148	145,483,797	149,208,945
Unspent Budget Authority	<u>\$ 49,962</u>	<u>\$ 23,608,710</u>	<u>\$ 23,658,672</u>
SPECIAL REVENUE FUNDS			
Budgeted	\$ 5,602,553	\$ 419,674,766	\$ 425,277,319
Actual	4,858,472	415,555,273	420,413,745
Unspent Budget Authority	<u>\$ 744,081</u>	<u>\$ 4,119,493</u>	<u>\$ 4,863,574</u>
INTERNAL SERVICE FUND			
Budgeted	\$ 1,096,180	\$ -	\$ 1,096,180
Actual	1,017,254	-	1,017,254
Unspent Budget Authority	<u>\$ 78,926</u>	<u>\$ -</u>	<u>\$ 78,926</u>

The Notes to Financial Schedules are an integral part of this schedule.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF AGENCY FUND ACTIVITY
For the Two Fiscal Years Ended June 30, 1996

FUND BALANCE, July 1, 1994 \$ -

ADDITIONS:

Fiscal Year 1994-1995

Budgeted Receipts	51,686,321
Nonbudgeted Receipts	10,486
Prior Year Disbursements	987,818
Prior Year Adjustments	2,787

Fiscal Year 1995-1996

Nonbudgeted Receipts	6,700
Prior Year Expenditures	940,822
Prior Year Adjustments	1,472
Total Additions	<u>53,636,406</u>

DEDUCTIONS:

Fiscal Year 1994-1995

Budgeted Disbursements	52,600,506
Nonbudgeted Disbursements	10,500
Prior Year Receipts	75,081
Prior Year Adjustments	1,325

Fiscal Year 1995-1996

Nonbudgeted Disbursements	6,700
Prior Year Revenue	942,294
Total Deductions	<u>53,636,406</u>

FUND BALANCE, June 30, 1996 \$ -

Notes to Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

1. Summary of Significant Accounting Policies

Reporting Entity

The Office of Public Instruction (OPI) is considered an agency within the State of Montana. The financial schedules present the results of operations and changes in fund balances of fund types of only that portion of the funds of the State that are attributable to transactions of OPI.

Basis of Accounting

OPI uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Fiduciary Funds. In applying the modified accrual basis, OPI records:

- Revenues when it receives cash or when receipts are measurable and available.
- Expenditures for valid obligations when the office incurs the related liability and it is measurable.
- The cost of employees' annual leave and sick leave when used or paid.

OPI uses accrual basis accounting for its Proprietary Fund. Under the accrual basis, as defined by state accounting policy, OPI records revenues in the accounting period earned, if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though OPI receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. OPI uses the following types:

Governmental Funds

General - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. OPI's Special Revenue Funds include the Traffic Safety Education, Public School Equalization, Public Instruction Grant Administration, and Grant Clearance - Discretionary Accounts.

Notes to Financial Schedules

Proprietary Fund

Internal Service - to account for providing goods or services to other divisions within OPI on a cost-reimbursement basis.

Fiduciary Fund

Agency - to account for assets held by OPI in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds.

2. Annual and Sick Leave

Employees at OPI accumulate both annual and sick leave. OPI pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. In the Proprietary Fund, the increase in annual leave and 25 percent of the increase in sick leave is recognized as nonbudgeted expenses when the related liability is recorded at year end. OPI absorbs expenditures for termination pay in its annual operating costs. At June 30, 1996, the office had a liability of \$439,745 for annual and sick leave.

3. Pension Plan

OPI participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, including principals and superintendents. The Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees Retirement System	Teachers Retirement System
P.O. Box 200131	P.O. Box 200139
1712 Ninth Avenue	1500 Sixth Avenue
Helena, MT 59620-0131	Helena, MT 59620-0139
Phone: (406) 444-3154	Phone: (406) 444-3134

Contribution rates for both plans are required and determined by State law. The contribution rates for 1996 and 1995, expressed as a percentage of covered payroll, were as follows:

	<u>EMPLOYER</u>	<u>EMPLOYEE</u>	<u>TOTAL</u>
PERS	6.700%	6.700%	13.400%
TRS	7.470%	7.044%	14.514%

Notes to Financial Schedules

The amounts contributed to the plans during the years ended June 30, 1996 and 1995 were equal to the required contribution for each year. The amounts contributed by OPI were as follows:

	<u>1996</u>	<u>1995</u>
PERS	\$ 159,383	\$ 167,243
TRS	\$ 104,617	\$ 105,744

Ten-year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1996, annual financial report.

4. Deferred Compensation Plan

OPI's employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractual arrangement with Nationwide Insurance.

5. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

6. Cash Transfer

OPI receives funding from a variety of sources. Some of this money is collected by other state agencies and recorded as revenue by those agencies when received. Examples include corporation license tax and coal tax collected by the Department of Revenue; and interest and other income earned on school land administered by the Department of State Lands. The revenue collected and recorded by others amounted to approximately \$1 million and \$56 million in fiscal years 1995-96 and 1994-95, respectively. To avoid duplicate recording of the same revenue on the state's accounting records, the state's accounting system uses a cash transfer. The cash which the other agencies collected and recorded as revenue is automatically transferred at fiscal year end to OPI's records.

7. Revenue Recognition

Revenue is recognized in the accounting period in which it becomes both measurable and available. Revenue is considered to be available if: 1) it has actually been received and deposited in the state treasury during the fiscal year; 2) the revenue is in the possession of a collecting agent on the last day of the fiscal year and will be received by the state within 60 days after June 30; or 3) the revenue is due for the period ending June 30 but the payer is allowed an administrative lead time of no more than 60 days to process the paper work to calculate the liability and make the remittance to the state.

Notes to Financial Schedules

8. State Equalization Aid

The 1993 Legislature authorized a \$124 million biennial appropriation from the state general fund to the state equalization aid (SEA) account for fiscal years 1993-94 and 1994-95. \$124 million dollars of the appropriation is included in the general fund budget on the Schedule of Budgeted Program Expenditures and Transfers Out for the fiscal year ended June 30, 1995. \$102.4 million of the appropriation was expended during the fiscal year ended June 30, 1995. There was no biennial appropriation to the SEA account for fiscal year 1995-96.

Due to a continued effort by the state legislature to “de-earmark” funds, activity previously reported in OPI’s SEA account is reported in the general fund for fiscal year 1995-96. The de-earmarked funds include individual income taxes, corporate income taxes and permanent trust interest.

9. Negative Fund Balance

The Special Revenue Fund reported a negative fund balance in fiscal year 1994-95. OPI shared the SEA account with the Department of Revenue, the Department of Commerce, and the Department of State Lands. OPI’s financial schedules show only OPI’s portion of the SEA account. The combined fund balance of the SEA account for the four agencies, was \$(1.1) million at June 30, 1995.

A residual equity transfer of \$6,410,150 was recorded by OPI in fiscal year 1995-96 to bring the SEA account balance to zero and close OPI’s SEA account.

10. Restatement of Prior Year Special Revenue Fund Balance

The beginning special revenue fund balance has been restated to include the fund balance for “Learn and Serve State Matching Funds.” This fund, which had previously been recorded by the Governor’s Office, became a part of OPI’s operations on July 1, 1994. The addition of this fund resulted in an increase in the beginning Special Revenue Fund Balance of \$6,409.

11. Change in Accounting Principle

In fiscal year 1995-96, OPI began implementing Government Accounting Standards Board (GASB) Statement No. 24, “Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.” GASB No. 24 states that a pass-through grant should be accounted for in an agency fund only in those instances when the recipient government has no administrative or direct financial involvement in the program. Under this statement, OPI records its pass-through grants (which previously were recorded in the agency fund) in special revenue funds.

The Office of Public Instruction

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State Superintendent



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December 2, 1996

TO THE LEGISLATIVE AUDIT COMMITTEE OF THE MONTANA STATE LEGISLATURE:

Following is our response to the audit recommendations contained in the Office of Public Instruction's (OPI) 1995-1996 audit report.

Federal Reporting, Form FNS-10 - We recommend control procedures be reviewed to ensure the FNS-10 report accurately reflects the data on the support documentation.

OPI Response: We concur. OPI is currently in the process of designing a system for the electronic submittal and payment of School Food Authorities' (SFA) claims for reimbursement. The new system, developed with federal funds granted to this office from the U.S. Department of Agriculture, will generate the FNS-10 Report from original data input by SFA's and OPI. System edits and reconciliation procedures will be designed to ensure the report is accurate.

Carl Perkins Indirect Costs - We recommend OPI establish review procedures for indirect cost rates used by Carl Perkins subrecipients to ensure budgeted and actual rates do not exceed the rates approved by OPI.

OPI Response: We concur. Procedures have been established to ensure the correct rates are used. Prior to approving a subrecipients budget, OPI staff compare the budgeted indirect cost rate to a list of approved rates. At the end of the grant period the subrecipient's final expenditure report is also reviewed to verify the indirect cost rate actually applied to direct expenditures did not exceed the subrecipient's approved rate.

Carl Perkins Administrative Costs - We recommend the amount budgeted and reimbursed to subrecipients for administrative costs be reviewed to ensure they are within the 5% allowed.

OPI Response: We concur. Prior to approving subrecipient budgets for Carl Perkins funding, OPI staff will verify that amounts budgeted for administrative costs do not exceed 5%

of the total grant award, and at the end of the grant period subrecipients' final expenditure reports will be reviewed to verify that actual administrative costs charged to the grant did not exceed 5%.

School Food - We recommend the information packet sent to subrecipients be reviewed, and instructions clarified, for non-traditional settings such as the Swan River Correctional Training Camp.

OPI Response: We concur. In the Fall of 1996 the OPI School Lunch Division distributed a new School Food Services manual to all School Food Authorities titled Program Guidance and Financial Management. The manual outlines program requirements and provides step by step instructions for completing School Food forms. In addition, the new system being designed for electronic submittal of School Lunch claims for reimbursement will flag large fluctuations in meal counts for further investigation by our office.

Employee Time Reporting - We recommend OPI comply with federal regulations by distributing time based on actual time records.

OPI Response: We concur. A policy was adopted and implemented effective July 1, 1996 which requires all staff to complete their bi-weekly timesheet by reporting hours worked according to activities actually performed during that pay period. Staff charging time to a Federal grant are expected to have reasonable, creditable evidence to support the charges.

Custodian Cash Accounts - We recommend OPI accounting personnel maintain all custodian cash accounts under a centralized control system.

OPI Response: We concur. The custodial cash accounts currently held by OPI for student vocational education organizations will either be returned to those organizations, or will be maintained by staff in OPI's centralized services division.

Commodities - We recommend renewal forms and approvals are reviewed prior to shipping commodities to subrecipients.

OPI Response: We concur. The new system being designed for electronic submission of School Lunch claims will also allow for electronic submission of a participant's original application and/or renewal form. The system will speed up the process for receiving and approving these forms. In addition the electronic system will give the staff working with commodities easier access to information regarding the status of a participant's application for program participation.

Local Adult Education Levies - We recommend OPI develop a set of rules and standards for approval/disapproval of locally adopted adult education levies.

OPI Response: We believe the decision of whether or not to impose a levy for adult education programs is a matter of local control and should not be subject to the approval or disapproval of OPI. Accordingly, OPI will introduce legislation in the 1997 session to remove this requirement from statute.

Electronic Data Processing - We recommend OPI consider an EDP audit of the MAEFAIRS system.

OPI Response: We have no objection to an EDP audit of MAEFAIRS if one is requested by the Legislative Audit Committee and funded by the Legislature.

We appreciate the opportunity to respond to the audit report.

Sincerely,

Nancy Keenan

